

HAVANA WATER AND SANITATION DISTRICT
Arapahoe County, Colorado

FINANCIAL STATEMENTS
December 31, 2017

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July 27, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Havana Water and Sanitation District
Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Havana Water and Sanitation District (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of December 31, 2017, and the respective changes in financial position and where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

I

Fiscal Focus Partners, LLC

Other Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Fiscal Focus Partners, LLC

Lakewood, Colorado
July 25, 2018

BASIC FINANCIAL STATEMENTS

HAVANA WATER AND SANITATION DISTRICT
STATEMENT OF NET POSITION
December 31, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 1,691,671	\$ 329,080	\$ 2,020,751
Cash and investments - Restricted	18,500	-	18,500
Prepaid expenses	16,622	-	16,622
Receivable - County Treasurer	3,508	-	3,508
Receivable - Sewer fees	-	2,305	2,305
Receivable - Sewer fees certified with County	-	7,830	7,830
Property taxes receivable	556,878	-	556,878
Capital assets, net	7,914	5,708,948	5,716,862
Total assets	<u>2,295,093</u>	<u>6,048,163</u>	<u>8,343,256</u>
LIABILITIES			
Accounts payable	28,535	15,144	43,679
Accrued interest payable - Note	-	9,593	9,593
Noncurrent liabilities			
Due within one year	-	238,600	238,600
Due in more than one year	-	1,522,700	1,522,700
Total liabilities	<u>28,535</u>	<u>1,786,037</u>	<u>1,814,572</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax revenue	556,878	-	556,878
Total deferred inflows of resources	<u>556,878</u>	<u>-</u>	<u>556,878</u>
NET POSITION			
Net investment in capital assets	7,914	3,947,648	3,955,562
Restricted			
Emergency reserves	18,500	-	18,500
Unrestricted	1,683,266	314,478	1,997,744
Total net position	<u>\$ 1,709,680</u>	<u>\$ 4,262,126</u>	<u>\$ 5,971,806</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**HAVANA WATER AND SANITATION DISTRICT
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 303,408	\$ -	\$ -	\$ -	\$ (303,408)	\$ -	\$ (303,408)
Total governmental activities	<u>\$ 303,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (303,408)</u>	<u>\$ -</u>	<u>\$ (303,408)</u>
Business-type activities:							
Wastewater Enterprise	\$ 727,175	\$ 667,097	\$ -	\$ -	-	(60,078)	(60,078)
Total business-type activities	<u>\$ 727,175</u>	<u>\$ 667,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>(60,078)</u>	<u>(60,078)</u>
General revenues:							
Property taxes					521,693	-	521,693
Specific ownership taxes					44,678	-	44,678
Interest income					19,543	12,870	32,413
Lease income					15,560	-	15,560
Other income					13,893	-	13,893
Transfer (to) from other funds					(66,000)	66,000	-
Transfer of capital assets					(86,599)	86,599	-
Total general revenues					<u>462,768</u>	<u>165,469</u>	<u>628,237</u>
Change in net position					<u>159,360</u>	<u>105,391</u>	<u>264,751</u>
Net position - Beginning					<u>1,550,320</u>	<u>4,156,735</u>	<u>5,707,055</u>
Net position - Ending					<u>\$ 1,709,680</u>	<u>\$ 4,262,126</u>	<u>\$ 5,971,806</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**HAVANA WATER AND SANITATION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2017**

	General Fund
ASSETS	
Cash and investments	\$ 1,691,671
Cash and investments - Restricted	18,500
Prepaid expenses	16,622
Receivable - County Treasurer	3,508
Property taxes receivable	556,878
TOTAL ASSETS	\$ 2,287,179
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 28,535
Total liabilities	28,535
 DEFERRED INFLOWS OF RESOURCES	
Property taxes revenue	556,878
Total deferred inflows of resources	556,878
 FUND BALANCES	
Nonspendable:	
Prepaid expenses	16,622
Restricted:	
Emergencies (TABOR)	18,500
Assigned:	
Designated for subsequent year's expenditures	69,776
Unassigned:	
General government	1,596,868
Total fund balances	1,701,766
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,287,179

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances	\$ 1,701,766
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	7,914
Net position of governmental activities	\$ 1,709,680

These financial statements should be read only in connection with
the accompanying notes to financial statements.

HAVANA WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
Year Ended December 31, 2017

	General Fund
REVENUES	
Property taxes	\$ 521,693
Specific ownership taxes	44,678
Interest income	19,543
Lease income	15,560
Other income	13,893
Total revenues	615,367
EXPENDITURES	
Current	
Accounting	18,000
Audit	5,780
County Treasurer's fees	7,833
Customer billing	23,835
Directors' fees	3,100
District management	12,042
Dues and subscriptions	716
Engineering and consulting	9,107
Insurance and bonds	11,376
Landscape maintenance	750
Legal	21,578
Miscellaneous	2,074
Postage/ printing	3,812
Repair and maintenance	112,348
Storage rent	3,600
Telephone	4,768
Capital outlay	
Major repairs/capital improvements	86,599
Management - capital	20,503
Engineering - capital	41,483
Total expenditures	389,304
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	226,063
OTHER FINANCING SOURCES (USES)	
Transfer to other funds	(66,000)
Total other financing sources (uses)	(66,000)
NET CHANGE IN FUND BALANCES	160,063
FUND BALANCES - BEGINNING OF YEAR	1,541,703
FUND BALANCES - END OF YEAR	\$ 1,701,766

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**HAVANA WATER AND SANITATION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2017**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - Total governmental funds	\$	160,063
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Governmental funds report capital outlay as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset.

Capital outlay		86,599
Depreciation		(703)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Capital assets transferred to Enterprise Fund		<u>(86,599)</u>
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Change in net position of governmental activities	\$	<u><u>159,360</u></u>
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These financial statements should be read only in connection with
the accompanying notes to financial statements.

**HAVANA WATER AND SANITATION DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original and Final</u>	<u>Actual Amounts</u>	
REVENUES			
Property taxes	\$ 521,754	\$ 521,693	\$ (61)
Specific ownership taxes	41,740	44,678	2,938
Interest income	7,100	19,543	12,443
Lease income	15,180	15,560	380
Other revenue	-	13,893	13,893
Total revenues	<u>585,774</u>	<u>615,367</u>	<u>29,593</u>
EXPENDITURES			
Accounting	18,000	18,000	-
Audit	5,700	5,780	(80)
Contingency	5,783	-	5,783
County Treasurer's fees	7,827	7,833	(6)
Customer billing	24,000	23,835	165
Directors' fees	3,000	3,100	(100)
District management	13,390	12,042	1,348
Dues and subscriptions	1,200	716	484
Engineering and consulting	9,000	9,107	(107)
Insurance and bonds	28,000	11,376	16,624
Landscape maintenance	6,000	750	5,250
Legal	30,000	21,578	8,422
Newsletter	1,500	-	1,500
Miscellaneous	3,200	2,074	1,126
Postage/ printing	5,400	3,812	1,588
Repair and maintenance	120,000	112,348	7,652
Storage rent	3,000	3,600	(600)
Telephone	6,000	4,768	1,232
Major repairs/capital improvements	300,000	86,599	213,401
Management - capital	23,000	20,503	2,497
Engineering - capital	41,000	41,483	(483)
Total expenditures	<u>655,000</u>	<u>389,304</u>	<u>265,696</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(69,226)</u>	<u>226,063</u>	<u>295,289</u>
OTHER FINANCING SOURCES (USES)			
Transfer to other funds	(67,000)	(66,000)	1,000
Total other financing sources (uses)	<u>(67,000)</u>	<u>(66,000)</u>	<u>1,000</u>
NET CHANGE IN FUND BALANCES	(136,226)	160,063	296,289
FUND BALANCES - BEGINNING OF YEAR	<u>1,484,826</u>	<u>1,541,703</u>	<u>56,877</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,348,600</u>	<u>\$ 1,701,766</u>	<u>\$ 353,166</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**HAVANA WATER AND SANITATION DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
December 31, 2017**

	Wastewater System Enterprise Fund
ASSETS	
Cash and investments	\$ 329,080
Receivable - Sewer fees	2,305
Receivable - Sewer fees certified with County	7,830
Capital assets, net	5,708,948
Total assets	6,048,163
LIABILITIES	
Accounts payable	15,144
Accrued interest payable - Bonds	9,593
Noncurrent liabilities	
Due in one year	238,600
Due in more than one year	1,522,700
Total liabilities	1,786,037
NET POSITION	
Net investment in capital assets	3,947,648
Unrestricted	314,478
Total net position	\$ 4,262,126

These financial statements should be read only in connection with
the accompanying notes to the financial statements.

HAVANA WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended December 31, 2017

	Wastewater System Enterprise Fund
OPERATING REVENUES	
Sewer fees	\$ 645,075
Sewer fees - Castlewood	22,022
Total operating revenues	667,097
OPERATING EXPENSES	
Sewer treatment	263,164
Utilities	45,365
Depreciation	238,116
Total operating expenses	546,645
OPERATING INCOME (LOSS)	120,452
OTHER REVENUES AND EXPENSES	
Interest income	12,870
Transfer from other fund	66,000
Bond interest	(103,705)
Note interest	(9,593)
Note transaction costs	(67,232)
Capital assets transferred from General Fund	86,599
Total other revenues and expenses	(15,061)
NET CHANGE IN NET POSITION	105,391
NET POSITION - BEGINNING OF YEAR	4,156,735
NET POSITON - END OF YEAR	\$ 4,262,126

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**HAVANA WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended December 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 677,467
Payments to suppliers	<u>(317,383)</u>
Net cash provided (required) by operating activities	<u>360,084</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfer from General Fund	<u>66,000</u>
Net cash provided (required) by noncapital financing activities	<u>66,000</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Bond and Note interest paid	(137,381)
Loan proceeds, net of issuance cost	1,694,068
Bond redemption	(3,200,000)
Net cash provided (required) by capital and related financing activities	<u>(1,643,313)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>12,870</u>
Net cash provided (required) by investing activities	<u>12,870</u>

NET INCREASE (DECREASE) IN CASH AND INVESTMENTS (1,204,359)

CASH AND INVESTMENTS - BEGINNING OF YEAR 1,533,439

CASH AND INVESTMENTS - END OF YEAR \$ 329,080

(Continued)

HAVANA WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended December 31, 2017
(Continued)

**Reconciliation of operating income (loss) to net cash provided
(required) by operating activities**

Operating income (loss)	\$	120,452
Adjustments to reconcile operating income (loss) to net cash provided (required) by operating activities:		
Depreciation		238,116
(Increase) decrease in assets:		
Accounts receivable		10,370
Increase (decrease) in liabilities:		
Accounts payable		(8,854)
Net cash provided (required) by operating activities	\$	<u>360,084</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - DEFINITION OF REPORTING ENTITY

Havana Water and Sanitation District (District), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Arapahoe County, Colorado. The District provides sewer services to its residents. Water services are provided by the City and County of Denver.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

The District has no employees and all operations and administrative functions are contracted.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Both statements distinguish between governmental activities, which normally are supported by taxes and intergovernmental revenues, and business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position reports all financial and capital resources of the District. The difference between the sum of assets and deferred outflows and the sum of liabilities and deferred inflows is reported as net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and recorded as an operating expense. Expenditures for property, plant and equipment are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after the current fiscal period. The major sources of revenue susceptible to accrual are property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental fund:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The District reports the following major proprietary fund:

The Wastewater System Enterprise Fund accounts for wastewater operations that are financed and operated in a manner where the intent of the District is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues consist of charges to customers for services provided. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

**HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District has amended its annual budget for the year ended December 31, 2017.

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits, certificate of deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Property Taxes

Property taxes are levied by the District Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set before December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August, and generally, sale of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenue is recorded as revenue in the year they are available or collected.

Accounts Receivable, Allowance for Doubtful Accounts

Tap fees and sewer fees constitute a perpetual lien on or against the property served until paid. Such liens may be foreclosed upon as provided by the State of Colorado. Therefore, no provision for uncollectible receivables has been made in the financial statements.

**HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include distribution and collection systems and machinery and equipment, are reported as assets on the District's financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

Distribution and collection systems	40 years
Machinery and equipment	7 years
Landscape improvements	15 years

Amortization

Original Issue Discount/Premium

In the government-wide financial statements and proprietary fund types in the fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Equity

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

**HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.
- *Assigned fund balance* – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balances is available for use when an expenditure is incurred, it is the District’s practice to use the most restrictive classification first.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2017, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 2,020,751
Cash and investments - Restricted	18,500
Total cash and investments	<u><u>\$ 2,039,251</u></u>

**HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash and investments as of December 31, 2017, consist of the following:

Deposits with financial institutions	\$ 26,468
Investments	<u>2,012,783</u>
Total cash and investments	<u><u>\$ 2,039,251</u></u>

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2017, the District's cash deposits had a bank balance of \$24,587 and a carrying balance of \$26,468.

Investments

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- . Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks

**HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- * Local government investment pools

As of December 31, 2017, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 2,012,783</u>

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

**HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 4 - CAPITAL ASSETS

The following is an analysis of the changes in the District's capital assets for the year ended December 31, 2017:

	<u>Balance at December 31, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at December 31, 2017</u>
<u>Business-type activities</u>				
Capital assets, being depreciated:				
Collection system	\$ 2,025,250	\$ -	\$ -	\$ 2,025,250
Lift station	4,368,888	86,599	-	4,455,487
Sewer force main	3,179,762	-	-	3,179,762
Total capital assets, being depreciated	<u>9,573,900</u>	<u>86,599</u>	<u>-</u>	<u>9,660,499</u>
Less accumulated depreciation for:				
Collection system	(1,550,435)	(49,616)	-	(1,600,051)
Lift station	(1,444,951)	(109,006)	-	(1,553,957)
Sewer force main	(718,049)	(79,494)	-	(797,543)
Total accumulated depreciation	<u>(3,713,435)</u>	<u>(238,116)</u>	<u>-</u>	<u>(3,951,551)</u>
Total business-type activities capital assets, net	<u>\$ 5,860,465</u>	<u>\$ (151,517)</u>	<u>\$ -</u>	<u>\$ 5,708,948</u>
<u>Governmental activities</u>				
Capital assets, being depreciated:				
Landscape improvements	\$ 10,553	\$ -	\$ -	\$ 10,553
Total capital assets, being depreciated	<u>10,553</u>	<u>-</u>	<u>-</u>	<u>10,553</u>
Less accumulated depreciation for:				
Landscape improvements	(1,936)	(703)	-	(2,639)
Total accumulated depreciation	<u>(1,936)</u>	<u>(703)</u>	<u>-</u>	<u>(2,639)</u>
Total governmental activities capital assets, net	<u>\$ 8,617</u>	<u>\$ (703)</u>	<u>\$ -</u>	<u>\$ 7,914</u>

For the year ended December 31, 2017, depreciation expense was charged to the wastewater operations and governmental activities of the District in the amount of \$238,116 and \$703, respectively.

**HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 5 - LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2017:

	<u>Balance December 31, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2017</u>	<u>Due Within One Year</u>
Revenue Bonds Series 2007	\$ 3,200,000	\$ -	\$ 3,200,000	\$ -	\$ -
Revenue Refunding Note Series 2017	-	1,761,300	-	1,761,300	238,600
Bond discount	(4,704)	-	(4,704)	-	-
	<u>\$ 3,195,296</u>	<u>\$ 1,761,300</u>	<u>\$ 3,195,296</u>	<u>\$ 1,761,300</u>	<u>\$ 238,600</u>

The details of the District's long-term obligations are as follows:

On September 27, 2007, the District issued \$5,000,000 in Wastewater System Enterprise Revenue Bonds, Series 2007. The bonds are special and limited obligations of the Enterprise, payable solely from the revenues of the wastewater system, after deduction of operation and maintenance costs. The bonds are not payable from the proceeds of general property taxes. Interest on the bonds, at a rate of 3.550% to 4.200%, is payable semi-annually on March 15 and September 15 of each year, commencing March 15, 2009. Payment of principal and interest on the bonds when due is insured by a financial guaranty insurance policy issued by Syncora Capital Assurance Inc. (formerly known as XL Capital Assurance, Inc.).

The bonds maturing on and before September 15, 2017, are not subject to redemption prior to maturity. The bonds maturing on and after September 15, 2018, are subject to redemption prior to maturity, at the option of the District, on September 15, 2017, or any date thereafter, in whole or in part, in integral multiples of \$5,000, from such maturities as selected by the District and by lot within a maturity, in such a manner as the District may determine, at a redemption price equal to the principal amount plus accrued interest to the redemption date. The bonds maturing September 15, 2027, are subject to mandatory sinking fund redemption at a price equal to the principal amount plus accrued interest to the redemption date.

The proceeds from the bonds were used for the purpose of completing certain improvements that benefit the District, funding the Reserve Fund and paying for the costs of issuing the bonds.

On October 2, 2017, the Bonds were fully paid by issuing the Wastewater System Enterprise Revenue Refunding Note, Series 2017 ("Note") with a principal amount of \$1,761,300. The Board has determined that it would be beneficial to the District and its residents to undertake the refunding of the Bonds and to finance such refunding with a loan from a financial institution.

The loan or Note is a special revenue obligation of the Enterprise payable solely from, and secured by an irrevocable and non-exclusive first lien on, the net revenue derived by the Enterprise from the ownership, operation and use of the wastewater system, after payment of the costs of operating and maintaining the wastewater system. The Note is not payable from the proceeds of general property taxes. The Note matures on September 15, 2024, and will bear an interest rate of 1.96% per annum to be paid semi-annually every March 15 and September 15. The Note is subject to redemption prior to maturity, at the option of the Enterprise, on September 15 of each year, in the maximum annual principal amount of \$50,000, at a redemption price equal to the principal amount so redeemed plus accrued interest to the redemption date, without redemption premium. The proceeds from Note were used to redeem the Bonds and pay for loan transaction costs.

**HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

In connection with the Note, the Enterprise will establish, maintain, enforce and collect rates, fees and charges for services furnished by or the use of the wastewater system to create gross revenue each fiscal year sufficient to pay operating costs and to create a net revenue in an amount equal to not less than 120% of the maximum annual debt service requirements on the Note and any outstanding parity obligations plus an amount required to make up any deficiencies in debt service reserve funds created in respect to any outstanding parity obligations. In 2017, the Enterprise met this coverage requirement.

The District's long-term obligations will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 238,600	\$ 32,891	\$ 271,491
2019	241,600	29,845	271,445
2020	246,400	25,110	271,510
2021	251,200	20,280	271,480
2022	256,100	15,357	271,457
2023 - 2024	527,400	15,556	542,956
	<u>\$ 1,761,300</u>	<u>\$ 139,039</u>	<u>\$ 1,900,339</u>

NOTE 6 - NET POSITION

The District has net position consisting of three components – net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2017, the District had net investment in capital assets, calculated as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
Net investment in capital assets:		
Capital assets, net	\$ 7,914	\$ 5,708,948
Current portion of note payable	-	(238,600)
Noncurrent portion of note payable	-	(1,522,700)
	<u>\$ 7,914</u>	<u>\$ 3,947,648</u>

**HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 6 - NET POSITION (CONTINUED)

The restricted component of net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position of \$18,500 as of December 31, 2017.

The District's unrestricted net position as of December 31, 2017, totaled \$1,997,744.

NOTE 7 - INTERFUND AND OPERATING TRANSFERS

In 2017, the Enterprise Fund received a contribution for operational purposes from the General Fund in the amount of \$66,000, which is less than 10% of the Enterprise Fund's 2017 revenues.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Water Operations

The District has entered into a total service contract with the Board of Water Commissioners of the City and County of Denver (Denver) and has transferred its ownership and substantially all of its rights in the water system to Denver. Denver is responsible for all maintenance and bills the users directly.

Sewer Operations

The District is a "special connector" by agreement with Metro Wastewater Reclamation District (Metro), which provides the treatment of sewage collected within the District. The standard service agreement with Metro provides for annual charges to be assessed by a formula against the District on an estimated basis. Adjustments to the estimated charge for metered flows and actual costs are billed and payable or credited during the two succeeding years. Metro assesses tap fees against the District for connections to the system. The composition of the charges for 2017 is as follows:

Estimated for current year	\$ 490,723
Less: decrease in 2016 revised estimate	(110,753)
Less: decrease in 2015 final adjustment	(116,806)
Total annual charge	<u>\$ 263,164</u>

The annual charge for 2018 was estimated by Metro at \$451,429, with an estimated net payment of \$364,287.

HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property and public officials' liability. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations that apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

On November 8, 1994, a majority of the District's electors authorized the District to collect, retain and spend revenue (including interest earnings) from tap fees it receives each year for capital and debt service purposes without regard to any limitations under TABOR.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District operates a wastewater activity enterprise (Enterprise) under Title 37, Article 45.1, C.R.S., to perform the functions of and to carry out certain wastewater activities of the District, including but not limited to payment for facilities for the collection and treatment of wastewater and provision of wholesale or retail wastewater services. The Enterprise, as an enterprise under Section 20 of the Colorado Constitution, may receive under ten percent of its annual revenue in grants from all Colorado state and local governments combined. The Enterprise is authorized to issue its own revenue bonds. The Enterprise has been created to operate the wastewater collection facilities of the District. Prior to the creation of the Enterprise, all wastewater activities were undertaken directly by the District.

HAVANA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

**HAVANA WATER AND SANITATION DISTRICT
ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL
Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sewer fees	\$ 649,000	\$ 649,000	\$ 645,075	\$ (3,925)
Sewer fees - Castlewood	22,022	22,022	22,022	-
Interest income	7,400	13,000	12,870	(130)
Note proceeds	-	1,761,300	1,761,300	-
Total revenues	<u>678,422</u>	<u>2,445,322</u>	<u>2,441,267</u>	<u>(4,055)</u>
EXPENDITURES				
Sewer treatment	263,164	263,164	263,164	-
Utilities	60,000	42,000	45,365	(3,365)
Bond principal	235,000	3,200,000	3,200,000	-
Bond interest	131,588	112,000	103,705	8,295
Note interest	-	9,593	9,593	-
Note transaction costs	-	67,000	67,232	(232)
Paying agent fees	1,500	1,500	-	1,500
Contingency	8,748	4,743	-	4,743
Total expenditures	<u>700,000</u>	<u>3,700,000</u>	<u>3,689,059</u>	<u>10,941</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other fund	67,000	67,000	66,000	(1,000)
Total other financing sources (uses)	<u>67,000</u>	<u>67,000</u>	<u>66,000</u>	<u>(1,000)</u>
EXCESS OF REVENUES OVER EXPENDITURES - BUDGET BASIS				
	<u>\$ 45,422</u>	<u>\$ (1,187,678)</u>	(1,181,792)	<u>\$ 5,886</u>
ADJUSTMENTS TO RECONCILE BUDGET BASIS TO GAAP BASIS:				
Depreciation			(238,116)	
Bond principal			3,200,000	
Capital assets transferred from General Fund			86,599	
Note proceeds			(1,761,300)	
CHANGE IN NET POSITION			<u>105,391</u>	
NET POSITION, BEGINNING OF YEAR			<u>4,156,735</u>	
NET POSITION, END OF YEAR			<u>\$ 4,262,126</u>	

**HAVANA WATER AND SANITATION DISTRICT
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2017**

**\$1,761,300 Wastewater System
Enterprise Revenue Refunding Note, Series 2017
Dated October 2, 2017
Principal Due September 15
Interest Rate 1.960%
Payable March 15 and September 15**

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2018	\$ 238,600	\$ 32,891	\$ 271,491
2019	241,600	29,845	271,445
2020	246,400	25,110	271,510
2021	251,200	20,280	271,480
2022	256,100	15,357	271,457
2023	261,100	10,337	271,437
2024	266,300	5,219	271,519
	<u>\$ 1,761,300</u>	<u>\$ 139,039</u>	<u>\$ 1,900,339</u>

**HAVANA WATER AND SANITATION DISTRICT
SUMMARY OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2017**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied Operations</u>	<u>Total Property Taxes</u>		<u>Percentage Collected to Levied</u>
			<u>Levied</u>	<u>Collected</u>	
2013	\$ 105,529,660	4.227	\$ 446,074	\$ 445,592	99.89%
2014	\$ 109,645,690	4.227	\$ 463,472	\$ 463,093	99.92%
2015	\$ 109,744,421	4.227	\$ 463,890	\$ 463,529	99.92%
2016	\$ 128,233,499	3.816 (1)	\$ 489,339	\$ 489,031	99.94%
2017	\$ 129,563,995	4.027 (2)	\$ 521,754	\$ 521,693	99.99%
Estimated for the year ending December 31, 2018	\$ 140,554,725	3.962 (3)	\$ 556,878		

NOTE:

Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessment.

(1) This includes a temporary mill levy reduction of 0.411 mills.

(2) This includes a temporary mill levy reduction of 0.200 mills.

(3) This includes a temporary mill levy reduction of 0.265 mills.